Death and Profits: The Utility Protection Racket

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Pacific Gas & Electric (PG&E) is a multi-billion-dollar privately owned, publicly regulated utility whose main function is to make enormous profits for its shareholders at great cost to ratepayers. I know this to be true; I'm one of the ratepayers.

Better than Bernard

The California Public Utilities Commission (PUC) permits PG&E to charge rates that are 30 percent higher than the national average. PG&E's shareholders enjoy a guaranteed 11.35 percent yearly return on equity. That's slightly higher than the 11 percent that swindler Bernard Madoff pretended to offer his investment victims. After Madoff was exposed, his victims were chided for not having realized that no one pulls down an 11 percent return year after year on the stock market. But PG&E investors take in more than that every year. And unlike Madoff, the company's earnings are for real, guaranteed at a fixed return devoid of risk.

PG&E enjoys a captive consumer market of fifteen million customers in northern and central California. The utility is a shining monument to state-supported monopoly capitalism. If costs rise, then so do customer rates (in order to guarantee the 11.35 percent return). PG&E carries a $17 million insurance premium and additional millions in insurance deductibles; these expenses too are picked up by its ratepayers.

If northern and central California's gas and electric services were publicly owned (yes, socialism), there would be no 11.35 percent skim off the top going to rich investors, no fat salaries and bonuses and huge severance packages pocketed by top executives, no billions of dollars in private wealth to be traded on the stock market. Customer rates would probably

be one-third to one-half lower than they are today. And gas pipelines would be in better repair.

An Avoidable Catastrophe

Along with all the other expenses they bear, PG&E's ratepayers usually pay for the enormous costs of utility accidents. This may still prove to be the case with the disaster recently visited upon San Bruno. On 9 September 2010, a PG&E pipeline blew apart. Gas explosions and flames ripped through the San Bruno community, taking the lives of at least eight people, injuring over fifty others (some very seriously), and completely destroying or damaging upwards of a hundred homes. An official from the National Transportation Safety Board described it: "My immediate assessment was the amazing destruction, the charred trees, the melted and charred cars, the houses disappeared."

In the weeks before the catastrophe, residents had been reporting gas odors and had voiced fears about a leak. But this brought no action from the company. A state assemblyman from the San Bruno area noted that the torn pipeline was over 60 years old, having been installed in 1948. He criticized PG&E for its poor maintenance and lax response. After the explosion, it took the company almost three hours to shut off the gas supply.

Company officials had known since 2007 that the aged pipeline serving San Bruno needed to be replaced. As reported by The Utility Reform Network (TURN), a public interest group, the PUC had granted PG&E a $5 million rate increase to replace the pipeline in 2009, but the company never got around to doing the work. Instead PG&E overspent its budget on executive bonuses and delayed pipeline replacement until 2013.

Then it had the gall to request another $5 million rate increase to replace the same neglected section of pipeline. The disastrous September 2010 explosion likely would have been averted if the utility had dealt with the pipeline in 2009 as originally slated.

PG&E has a history of dangerous mishaps: improper piping allowed gas to leak from a mechanical coupling in 2006; a leak in Rancho Cordova led to an explosion that killed one resident and injured two others in 2008; over forty other gas pipeline accidents in the past decade. One wonders how many other California communities are at risk from aging and deficient pipelines. So much for the superior performance of a giant private-profit corporation.

Not in the Safety Business

This problem obtains not only in California. Throughout the United States people are at risk

from improperly maintained gas lines belonging to private utilities that go largely unsupervised and unpunished. Average fines are less than $30,000 and not easily collected.

PG&E's CEO, Peter Darbee, formerly of Goldman Sachs (how perfect), reassured the public that he was "focused on the tragedy" in San Bruno and on "how best to respond to the authorities involved."

Darbee failed to mention that PG&E is not in the safety business. Like so many big corporations, it does what it can to cut corners on maintenance. The lower the maintenance costs, the higher the profits. The corroding pipelines fit well into the picture, like the corroding infrastructure of the entire society. Safety is not a prime concern for giant corporations, if any concern at all, because safety does not bring in any money. In fact, it costs money.

Like any other multibillion-dollar firm, PG&E is first and foremost in the business of making the highest possible payoffs for its shareholders and its executives. The system works just fine for those whose real job is to skim the cream, those who do not have to pay the costs. That is the alpha and omega of modern corporate capitalism.

Capitalism at Work

Lives were lost in San Bruno; homes were totally obliterated. Darbee and his cohorts should be facing jail sentences instead of golden parachutes. Even the Contra Costa Times (9/27/10)--no radical broadsheet--urged the PUC "not to allow PG&E to raise rates to cover the expense of the San Bruno explosion or the cost of doing more and better pipe inspections. These costs should be borne by PG&E managers, employees, and investors." Certainly managers and investors.

Left out of the whole picture is how corporate malfeasance and corporate generated disasters are a reflection of the capitalist system. If a gas pipeline had exploded in communist Cuba, killing people and destroying homes, the incident would immediately have been treated by US commentators as evidence of the deficiencies of the broader economic system, as proof that socialism cannot do it right.

But disasters in our own society are seen simply as immediate mishaps, at worst, instances of negligence and mismanagement by a particular company, never as the outcome of a broader capitalist system that steadfastly puts profits before people, with immense costs passed along to the public.

The same is true of mining accidents, train wrecks, plane crashes, unsafe auto vehicles, unsafe consumer products and foods, toxic spills, offshore-drilling calamities and a host of other noxious things that corporate America foists upon us. Private industries are not in the

safety business. All of them are in the business of creating the largest possible profits for their shareholders and their executives.

Pressed on the matter, they might admit as much. Steel magnate David Roderick once said that his company "is not in the business of making steel. We're in the business of making profits." The social uses of the product and its effects upon human well-being and the natural environment win consideration in capitalist production, if at all, only to the extent that they do not violate the profit goals of the corporation.

Better Things To Do

Rather than spend money on replacing aging pipelines, PG&E—just three months before the San Bruno catastrophe—poured $46 million of ratepayer money (ten times the amount needed for repairing the San Bruno pipeline) into the electoral campaign for Proposition 16. This initiative was designed to make it neigh impossible for local governments to purchase energy from alternative sources, impossible to get out from under PG&E's monopoly grip. The proposition was miraculously defeated despite the company's immense campaign outlay.

With thousands of miles of aging pipes to inspect and perhaps replace, PG&E continues to find other things to do. Through most of 2010, it was busy putting "smart meters" into people's homes. The new meters do not need to be read by an employee out in the field. Instead data from residences and businesses are transmitted by a mesh network of radio signals.

Critics argue that the smart meters are too smart. They often inflate electric bills. Worse still, they may be harmful to our health. There is evidence that radio-frequency exposure is linked to cancer and other diseases. A number of ratepayers already complain of being sickened by the heavy doses from smart meters. PG&E gives reassurances that the frequencies pose no great danger but it continues to face community resistance and skeptical questions from independent investigators.

Smart meters cut labor costs. Lower labor costs do not bring lower rates for ratepayers but higher profits for managers and stockholders. Never accuse PG&E of neglect or stupidity. The company knows what it is doing. In keeping with the essence of the corporate capitalist system, PG&E exists not to serve the public but to serve itself.

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